

To Our Shareholders:

1979 is off to a promising start for Zayre Corp. Total sales (excluding those of leased departments) rose 13.5% to \$309,657,000 during the 13 weeks ended April 28, 1979, and net income increased to \$324,000, or \$.06 per share, as compared with \$78,000, or \$.01 per share last year. Earnings this year include \$160,000, or \$.03 per share, from the acquisition in the open market of this year's sinking fund requirement on the Company's convertible subordinated debentures.

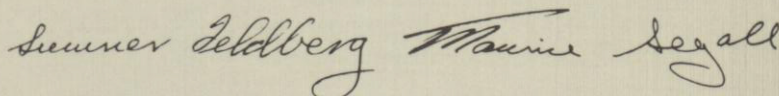
Net earnings for the full 52-week trailing year period through April 28th amounted to \$14,263,000, or \$2.76 per primary share, up from \$11,108,000, or \$2.20 per share in the comparable prior period.

The tone of our sales has been excellent right from the beginning of the year, thus building upon the momentum of last year's strong same-store gains. Apparel sales have been particularly noteworthy which has, in turn, had a positive influence on merchandise margins. On April 1st, our "Market Development Program" made its debut in Chicago and Boston under the umbrella of our "Take Another Look" multi-media promotional campaign. Since the first of the year, 42 of our units in these markets had been remodeled simultaneously. Customer response to the distinctly improved look and content of these stores has continued to exceed expectations.

As noted in our prior reports, this is an extremely important effort for Zayre Corp. — designed to markedly elevate the volume and profitability of all stores it covers. Our programs combine substantial physical renovation, aggressive merchandising, more efficient replenishment with higher store operating standards and extensive data transmission innovations. Our Miami stores will be remodeled this summer and other key markets have been scheduled for next year.

Inventories have remained under tight control and are up 5.23%; considerably less than the increase in our sales. Expenses are within budget, and include the full start-up costs of our new marketing programs as well as continued inflationary cost pressures. To better support our store replenishment efforts, a new 240,000 square foot distribution facility in Clinton, Massachusetts becomes operational this month.

Respectfully submitted,



SUMNER FELDBERG
Chairman of the Board

MAURICE SEGALL
President

May 16, 1979

Zayre Corp. and Consolidated Subsidiaries

CONDENSED BALANCE SHEETS *(Unaudited)* (Dollars in Millions)

	April 28, 1979	April 29, 1978 ⁽¹⁾
ASSETS		
Current assets		
Cash	\$ 18.0	\$ 17.0
Accounts receivable and prepaid expenses	17.5	15.4
Merchandise inventories	354.0	336.4
Total current assets	389.5	368.8
Property, net of depreciation and amortization	93.9	83.6
Property under capital leases, net of amortization	72.5	72.9
Other assets	8.6	9.1
TOTAL ASSETS	\$564.5	\$534.4

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities		
Notes payable to banks	\$ 17.0	\$ 31.0
Current instalments of long-term debt ...	8.1	9.4
Accounts payable and accrued expenses	190.4	174.8
Current obligations under capital leases ..	5.6	5.2
Total current liabilities	221.1	220.4
Long-term debt (includes real estate mortgages)	113.2	98.5
Long-term obligations under capital leases	86.3	86.1
Deferred income taxes9	1.3
Shareholders' equity	143.0	128.1
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$564.5	\$534.4

FINANCIAL SUMMARY *(Unaudited)* (Dollars in Thousands Except Per Share Amounts)

Net sales (excluding leased department sales)	
Cost of sales, including buying and occupancy costs ..	
Selling, general and administrative expenses	
Interest costs:	
Debt	
Capital leases	
Total expenses	
Income before income taxes	
Provision for federal and state income taxes	
Net income	
Net income per common share:	
Primary	
Fully diluted	
Average number of common shares outstanding for primary computation	
Discount department stores	
Specialty stores	

- (1) Restated for capitalization of leases in accordance with the Statement of Financial Accounting Standards No. 13.
(2) The Company's fiscal year ends on the last Saturday in January.

CONDENSED STATEMENTS OF CHANGES IN FINANCIAL POSITION (Unaudited) (Dollars in Millions)

13 Weeks Ended		52 Weeks Ended ⁽²⁾	
April 28, 1979	April 29, 1978 ⁽¹⁾	April 28, 1979	April 29, 1978 ⁽¹⁾
\$309,657	\$272,918	\$1,430,848	\$1,292,403
235,255	209,795	1,102,118	1,011,152
68,866	58,671	280,740	241,339
3,074	2,320	12,667	9,828
1,887	1,981	7,975	8,026
309,082	272,767	1,403,500	1,270,345
575	151	27,348	22,058
251	73	13,085	10,950
\$ 324	\$ 78	\$ 14,263	\$ 11,108
 \$.06	 \$.01	 \$2.76	 \$2.20
 \$.06	 \$.01	 \$2.62	 \$2.10
5,140,892	5,036,507	5,141,952	5,002,789
251	252		
297	262		

Financial Accounting Standards No. 13, "Accounting for Leases".

	13 Weeks Ended	
	April 28, 1979	April 29, 1978 ⁽¹⁾
SOURCE OF WORKING CAPITAL		
Funds provided from operations	\$ 5.2	\$ 4.8
Additional long-term borrowings	15.0	2.2
Leased property disposals, net	—	1.4
	\$20.2	\$ 8.4
APPLICATION OF WORKING CAPITAL		
Decrease in long-term debt	1.9	2.5
Decrease in obligations under capital leases	1.3	2.8
Property additions	5.8	3.3
Other2	.1
	9.2	8.7
Increase (decrease) in working capital	11.0	(.3)
	\$20.2	\$ 8.4
DETAILS OF WORKING CAPITAL INCREASE (DECREASE)		
Increase (decrease) in current assets:		
Cash	(5.0)	(6.5)
Marketable securities	(13.7)	(12.0)
Accounts receivable and prepaid expenses	5.7	4.7
Merchandise inventories	100.0	94.1
	87.0	80.3
Increase (decrease) in current liabilities:		
Notes payable	17.0	31.0
Current instalments of long-term debt ...	(1.2)	(.6)
Accounts payable and accrued expenses ...	60.1	50.2
Current obligations under capital leases1	—
	76.0	80.6
Increase (decrease) in working capital	\$11.0	\$ (.3)

First Quarter Report to Shareholders

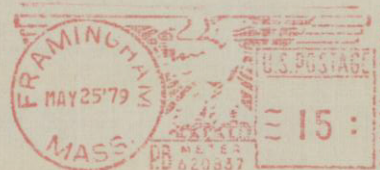
Zayre

*** Zayre Corp.**

Framingham, Massachusetts 01701

CHANGE OF ADDRESS: Shareholders are requested
to notify Corporate Services Department
State Street Bank and Trust Co.
P.O. Box 5003, Boston, Mass. 02107

CLEVELAND PUBLIC LIBRARY
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CORPORATION FILE



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